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C O N F I D E N T I A L SECTION 01 OF 02 BAKU 001030

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SUBJECT: AZERBAIJAN: DAS BRYZA TALKS ENERGY WITH GOAJ
MINISTERS

Classified By: Ambassador Anne E. Derse, Reasons 1.4 (b,d)

¶1. (C) SUMMARY: In DAS Bryza's discussions with the Foreign Minister, Energy and Industries Minister and Minister of Economic Development, all three agreed that USG and GOAJ strategic outlook on regional energy issues were in sync. Moving forward, the USG and GOAJ should focus on bringing Turkmen offshore gas westwards, on strengthening the energy transport links between the GOAJ and Kazakhstan, and most importantly, on resolving differences among (on the one side) Turkey, Greece and Italy and (on the other side) Azerbaijan concerning gas transit through Turkey. In subsequent discussions in Baku August 15-16, EEB A/S Sullivan received further detail on these and other energy issues (septel).
END SUMMARY.

FOREIGN MINISTER

¶2. (C) Like President Aliyev and SOCAR VP Nassirov, FM Mammadyarov expressed displeasure at the recent Turkish-Greece-Italy TGI signing, in that it omitted prior consultation with or even explicit mention of Azerbaijan. Bryza agreed that closer coordination among those three countries and Azerbaijan was called for. In this regard, Mammadyarov and Bryza agreed that an EU-sponsored conference or summit in the fall at the Heads of State level would show the collective countries' commitment to the Southern Corridor Project. Mammadyarov and Bryza said that the EU role should be prominent in organizing such a conference, with the USG lending support as needed. Bryza and Mammadyarov also discussed the possibility of an IEA-sponsored conference in October or November. They agreed that the TGI project should be a key focus, and not be crowded out by Nabucco. The message to European consumers at any regional forum would be clear and consistent: Azerbaijan has enough gas both for TGI and for the start of Nabucco. Bryza also said there would be energy meetings in Vilnius on October 11, with Mammadyarov saying that the GOAJ would attend.

¶3. (C) Mammadyarov said there would be energy-related MOUs signed during the President's August 6-8 trip to Kazakhstan. As for Turkmenistan, Bryza said that he had had a good visit to Ashgabat, and good talks with Petronas and the GOTX, and that the GOTX head understood his presentation on the benefits of transporting at least some GOTX gas westwards. Turkmen gas was essential for the Nabucco project, and GOTX should consider becoming a partner in this project. Mammadyarov said that "once TGI and Nabucco were signed, Turkmenistan would join in."

14. (C) Mammadyarov said that he was concerned about the Iranian-GOT energy agreement. The USG should press upon Turkey that it should be "part of the team," and "not another Gazprom." GOAJ confidence in Turkey was shaken both by this announcement and by the Southstream one. Turkey's fifteen percent netback proposal, as showcased in the TGI agreement, would be unacceptable for the GOAJ, and Azerbaijan would not abide the GOT re-selling GOAJ gas. In response to Mammadyarov's question about Iraqi gas, Bryza said that it was an option once calm was restored and a hydrocarbon law was passed.

15. (C) Bryza said high-level USG officials would be increasing their engagement in regional energy issues, to include Undersecretary for Economic, Energy and Agricultural Affairs Reuben Jeffery and Energy Secretary Bodman, the latter of whom would be attending the TGI inaugural ceremony.

ECONOMIC DEVELOPMENT MINISTER

16. (C) Babayev categorized his recent trip to Greece as successful. The Greeks were well prepared but had misconceptions about Gazprom's reliability and the shortage of Azerbaijan's gas supply. Describing Gazprom's history of price hikes and price gouging helped Babayev dispel Gazprom myths. He reassured the Greeks that Azerbaijan's production potential was sufficient to meet Greek demands, and that Azerbaijan can meet its own and Georgia's needs and still have surplus gas to export to Europe. Babayev said the Greeks were surprised but did not object to exploring another alternative. Based on the bilateral GOAJ-Greek Energy MOU that President Aliyev signed August 2, Babayev said that theoretically Greece could receive a "symbolic" supply of

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Azerbaijani gas by the end of August. However, Babayev explained that he is concerned about the "TGI" intergovernmental agreement among Turkey, Italy and Greece about gas distribution, the details of which were still unknown to the GOAJ. Bryza told Babayev that his visit to Greece was important and that to move forward, Azerbaijan and Turkey need to agree on prices and quotas.

17. (C) Babayev outlined several concerns about Turkey, particularly its desire to charge a 15 percent transit fee, which Babayev called "nonsense" - "Azerbaijan is not looking to replace Gazprom with a new dictator." Turkey's transit fees should be concrete tariffs for services so that every country knows the exact price of gas. If Turkey is to become a reliable long-term partner, transparency during the negotiations is vital. Babayev asked Bryza for USG support to push for clear and transparent negotiations with a fair formula that would be beneficial to all, so as to encourage Central Asian countries to ship their energy west, vice through Russia. Babayev noted that Foreign Minister Mammadyarov had offered to host a working group conference to clarify positions on Azerbaijani gas.

ENERGY MINISTER

18. (C) In an August 2 meeting, Energy Minister Natiq Aliyev and DAS Bryza discussed how to best forge new energy links with Turkmenistan. Aliyev said Azerbaijan could be active, but the Turkmen need to make the first step) "we need a sign that they want to talk." Aliyev said the Europeans, with the support of the United States, are best poised to help the Turkmen broker an agreement to move gas westward through Azerbaijan and on to Europe.

19. (C) "The Turkmen must coordinate with Russia. They have 60-70 bcm of gas and if they spoil their relations, they will not have other routes to export this gas. They are afraid of the Russians and therefore their politics will be flexible," Aliyev noted. Aliyev commented that he will be traveling

with SOCAR Vice President Elshad Nassirov to Ankara by the end of the month (following the creation of a new government in Turkey) to negotiate a gas transit deal. He had spoken with Turkish Energy Minister Guler on August 1 and agreed on the need to sign a protocol on gas transit conditions during the visit. Appearing unaware of SOCAR's new concerns over the Turkey-Greece-Italy Interconnector agreement, he said that President Aliyev had in principle agreed to the proposal whereby 15 percent of the exported gas would remain in Turkey.

¶10. (U) This cable has not been cleared by DAS Bryza
DERSE